A NEWSLETTER FOR PENSIONERS

PENSION NEWS

Teacher's Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants

Issue 9
Fall 1994

Inflation and Your Pension

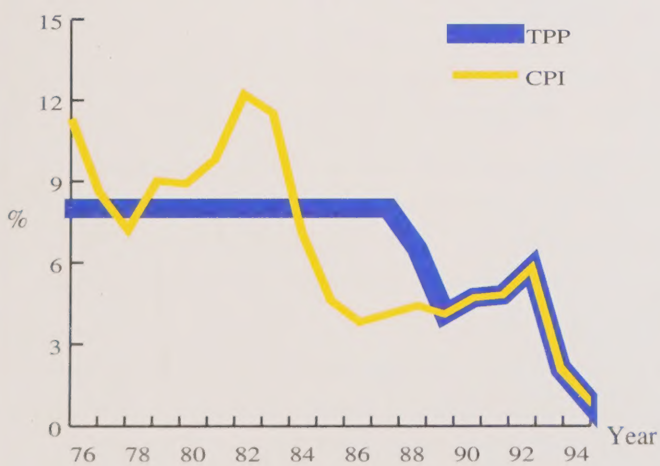
Full inflation protection is one of the most important features of your pension plan.

Since 1976, teachers' pensions have been adjusted each year to a maximum of 8% to reflect the cost-of-living. The cost-of-living, or inflation, is measured by the Consumer Price Index (CPI) each September. In years when the CPI was higher than 8%, the excess was carried forward and "banked" for years when it fell below 8%.

How valuable is inflation protection? If you were earning a $10,000 pension in 1975, you would be receiving a pension of $33,719 today.

From 1976 to 1987, pensioners received an increase of 8% per year. In 1988 and 1989, the amount decreased as inflation dropped and the excess in the bank was used. Inflation picked up again from 1990 to 1992, but has dropped steadily since, to a low of 1.9% last year.

20-Year History of CPI and TPP



1995 Inflation Adjustment

This year, inflation is the lowest it's been in almost 20 years. Since your pension adjustment is directly linked to inflation, your increase for 1995 will also be low.

Your annual pension increase, starting in January 1995, will be 0.6%. Your pension inflation adjustment statement, sent to you in January, will show your new pension amount based on this increase.

Jackie Gwisdek, a retired teacher from Oakville, takes a break in her vineyard. *Turn to page 2 for her interesting retirement story.*

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We Heard It Through The Grapevine

When Jackie Gwisdek first saw the farm five years ago, she fell in love with it and knew it was the place she wanted to spend her retirement. The next day, she and her husband, Heinz, bought it.

"Neither of us knew anything about growing grapes and we were never big wine drinkers either," said Jackie. However, they learned a lot the way you'd expect teachers to learn about most things—by reading books and asking questions. Little did they know how much work lay ahead for the two of them.

Here's Jackie's story:

"Our vineyard is called Whistle Hill and it is a 30-acre farm beautifully situated on the Beamsville Bench, which is a low-lying portion of the Niagara Escarpment. It has a panoramic view of Lake Ontario from Hamilton to the Scarborough Bluffs.

"Like teaching, farming is a continuous learning experience and a lot of hard work."

"It takes about three years, and constant care, for newly planted vines to begin producing wine-making grapes. Before you can enjoy the glory days of harvest, there is machinery to keep in good repair, then pruning, tying, cultivating, spraying and trimming.

Looking good! Jackie inspects a bunch of Cabernet Sauvignon grapes before harvest.

"Our nine varieties of grapes, including Riesling, Chardonnay and Cabernet, are like our children. Our greatest reward is when all are harvested and, of course, taste good.

"After 33 years of teaching grades 5 to 8 and concluding in Halton last year, farming in Beamsville has been a satisfying experience, keeping me on my toes and one step ahead of the grapevine. What a life; we love it!"

Not just farmers

In addition to keeping themselves busy on the farm, Jackie and Heinz have been avid sailors for 20 years. Even though they don't race anymore, they still enjoy sailing on their boat *Rumrunner* whenever they get a chance.

The Gwisdeks never planned to spend their retirement farming. However, they couldn't be happier—being spontaneous and making it work is something they know all about.

Thirty-three years ago, Jackie and Heinz were married after knowing each other for only one week!

Thank you for your story Jackie!

Two years ago, we invited you to send us interesting retirement stories.

We've received many letters since we introduced this column and want to thank everyone for their overwhelming response.

Unfortunately, we can't feature everyone's story. However, we have kept them all on file and may use them in future newsletters or in other documents such as the annual report.

So if you have an interesting retirement story you'd like to share with us, please write it down and send it to us.

A "Bright" Future

Jackie and Heinz Gwisdek have another interesting connection with the Teachers' Pension Plan.

Last year, we invested $12 million in T.G. Bright & Co., Limited, shortly before it merged with Cartier Inniskillin Vintners Inc. In the wake of the merger, Bright's changed its name to Vincor International Inc. this past August.

How are the Gwisdek's connected to all of this? They currently have a five-year contract to supply Vincor with their grapes!

Vincor operates vineyards in the Niagara region and has wineries in Quebec, Ontario, New Brunswick and British Columbia. They also own and operate 129 Wine Rack retail outlets in Ontario.

Vincor's two founding companies are well known for such brands as L'Ambiance, Sawmill Creek, Entre Lacs, Inniskillin Ice Wine, Jackson-Triggs Varietals, and Bright's President's Champagne.

Each of Vincor's founding companies has achieved major milestones in the industry and won many international awards.

Private Placements

Vincor is currently the largest winery in Canada and eighth largest in North America. It is also only one of many companies in our private placement portfolio (others include White Rose Nurseries and Alliance Communications).

Our investments in the private placement portfolio total approximately $300 million, or about one percent of our total assets.

1993 Annual Report

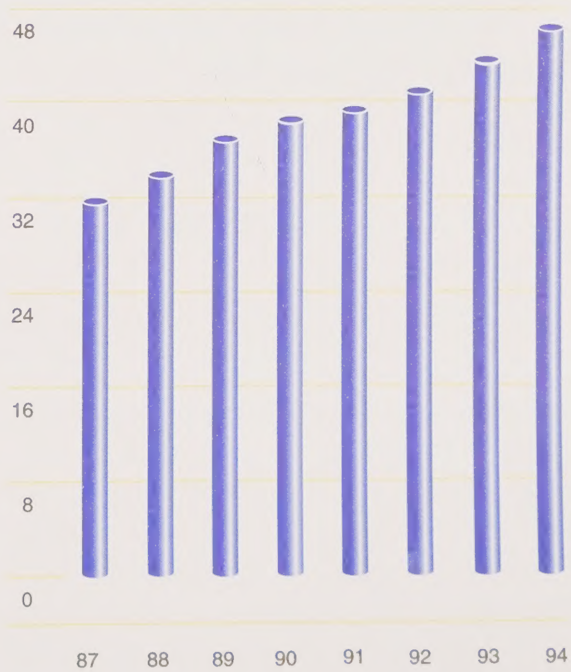
Your copy of Highlights of the 1993 Annual Report has been included with this issue of *Pension News*.

The full 1993 Annual Report is a more detailed review of our administrative and investment activities last year. If you'd like a copy of the full report, call our Communications Department.

We'd like to know if the highlights meet your information needs and if not, what type of information you would like to receive. If you have any specific suggestions or comments, please contact Lee Fullerton, Communications Manager at (416) 730-5347 or Linda Keon, Editor, *Pension News* at (416) 730-5357.

Number of Pensioners

(thousands)



Approximately 3,000 teachers have retired this year—so far.

As of August, the total number of pensions being paid is just over 46,000 (includes retirement, disability and survivor pensions).

Your Presence in the U.S. May Be "Taxing"

Even though the Canadian dollar has been at its lowest point in years, many "snowbirds" continue to flock south every winter.

Whether you rent or own property, or simply vacation for extended periods of time, spending too much time in the U.S. may make your life more complicated than you realize.

"Testing" your presence in the U.S.

To determine whether or not you are considered a U.S. resident for tax purposes, the Internal Revenue Service (IRS) has developed the "substantial presence" test.

This test is used to calculate the weighted average of the number of days you have spent in the U.S. in the last three calendar years. So even if you've spent less time in the U.S. this year, you may still meet the "substantial presence" test.

Substantial Presence Test

All of days in U.S. in current year

\+

1/3 of days in U.S. in preceding year

\+

1/6 of days in U.S. in second preceding year

If the total equals or exceeds 183, and you are present in the U.S. for more than 31 but less than 183 days in the current calendar year, you are subject to U.S. tax and filing requirements.

Therefore, if you regularly spend winters in the U.S. (see example), you would be considered a U.S. resident under the substantial presence test, even if you are a Canadian citizen and pay Canadian taxes.

Example

Since her retirement in June 1991, Joan has been going to visit relatives in Arizona each winter. She usually spends four months, or 122 days per year, in the U.S.

1994 → 122

1993 → 1/3 X 122 = 40.66

1992 → 1/6 X 123 (leap year) = 20.5

Total = 183.16

Joan meets the substantial presence test.

Closer Connection Exemption

If you meet the substantial presence test but spend less than 183 days in the U.S. in the current year, you can claim a closer connection exemption with Canada. To avoid filing a U.S. tax return, you must send a statement to the IRS each year claiming this exemption.

The IRS accepts any one of the following:

- Form 8840 (IRS)
- Statement for Claiming a Closer Connection to a Foreign Country for United States Income Tax Purposes (for members of the Canadian Snowbird Association)
- a customized form from your accountant or lawyer

Treaty exemption

If you spend more than one-half of the current year (183 days) in the U.S., you cannot claim a closer connection exception and must file a U.S. income tax return (Form 1040NR).

However, we have a treaty with the U.S. which protects us from having to pay additional U.S. tax in most cases. As long as you don't earn income while in the U.S., you can claim treaty exemption when filing your U.S. return.

Deadlines

Either a Closer Connection Exemption or a U.S. tax return claiming a treaty exemption must be filed by June 15 of the next year. For example, if you meet the substantial presence test for 1994, you must file by June 15, 1995.

Penalties

If you don't file as necessary, you may be subject to non-disclosure penalties of up to $1,000 for each income source you have (i.e. pension, interest, dividend, rental, etc.).

We encourage you to keep track of the number of days you spend in the U.S. and determine whether or not you meet the substantial presence test. If you have any additional questions, contact your tax advisor, the Canadian Snowbird Association, or the U.S. Internal Revenue Service directly at the address below.

U.S. Internal Revenue Service
Department of the Treasury
Embassy of the U.S.A.
60 Queen Street, Suite 201
Ottawa, Ontario K1P 5Y7
(613) 563-1834

Wearing sunscreen will protect you from the damaging effects of the sun. Careful planning and record keeping will protect you from unwanted U.S. taxation.

Canadian Snowbird Association (CSA)

***snowbird** (n): one who travels to warm climes for the winter*

The CSA is a non-profit organization representing the concerns of Canadian snowbirds. In addition to offering travel health insurance coverage to its members, the association has been very active addressing such issues as residency, out-of-Canada health care and voting rights.

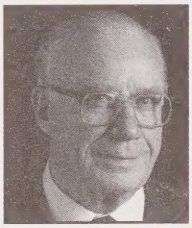
Recently, the CSA has been very visible as a lobby group protesting the cutbacks in OHIP's out-of-province medical coverage.

Today, the CSA has over 120,000 members, the majority of whom either travel extensively or maintain a second residence outside of Canada. However, you don't have to be a senior living in Florida to join CSA. If you are interested in issues relating to travel outside of the country, you can belong for $5 per year.

For more information on the CSA, you can contact them directly at the address below.

Canadian Snowbird Association
Atria North II
2235 Sheppard Avenue E., Box 54
North York, Ontario M2J 5B5
Toll-free 1-800-265-3200
Toronto (416) 492-7770

Investment Update



Gerald Bouey

This is an excerpt from Gerald Bouey's speech to the OTF Board of Governors in August.

As you know, the plan's goal is to earn an average annual return of 4.5 percent plus inflation. As I have often stated, earning that level of return on a consistent basis is not as easy as many people imagine.

The pension plan has earned an average of 13.1% per year since June 1990. That's the good news.

Six-month review

I have often warned that we can expect periods of little growth or even negative returns. That happened in the first six months of 1994.

The return on Canadian bonds was about minus 10%. The return on the Toronto Stock Exchange was a negative 5.7%.

The return on our plan was minus 3%. Negative, but much better than the market.

The fund's investment performance is on track... in fact, it is exceeding our plan.

Mind you, the year is not over and things have improved in July. During that month, our return was a positive 2.4% which means that our year-to-date return is around minus 0.6%.

Why did we do better? Because of diversification from debentures and the management of our bond portfolio.

Our risk management program substantially softened the decline in debenture values during the first half of 1994. It also performed extremely well in 1992 and 1993.

Real estate

You have heard nothing but bad news about the real estate market for four consecutive years. Our portfolio, by contrast, is doing relatively well. In fact, for the first half of 1994, real estate is one of our best performing asset classes with a return of 2.9%.

Your pension is safe. It is established at retirement and is not affected by the performance of the fund.

We appear to be doing better than the general industry because our real estate portfolio is overweighted in shopping centres and because two-thirds of our properties are in western Canada.

In all of this, there is a lesson. The inherent volatility of capital markets in the short term should encourage the building of a safety cushion against future losses.

Looking ahead

How will the negative returns in the first half of this year affect our long-term performance?

Right now, the impact will be slight. Certainly it poses no risk to our investment objective of 4.5% plus the inflation rate on a four-year moving average.

In summary, then, our results are relatively good. Our diversification is paying off. In the first half of this year, non-North American markets produced good returns, especially when converted into Canadian dollars. And those gains offset part of the market decline in Canada.

Because of this diversification, we were successful in performing well compared to other Canadian pension funds as well as most mutual funds who have not invested substantially outside of North America.

However, let's not lose sight of the fact that we are talking about very short-term results. We invest for the long term because it is long-term rates of return that pay teachers' pensions—not six-month returns.

Survivor Pensions

Additional Common-law Spouses Now Eligible

We can now pay survivor pensions to eligible common-law spouses of all plan members. To qualify, the common-law relationship had to have been established when the member retired.

Previously, the common-law spouses of plan members who retired before September 1, 1984 were not eligible for survivor pensions.

In 1984, the plan was revised to recognize common-law spouses. However, no provision was made for common-law spouses of members who retired before September 1, 1984.

Member appeal

In 1986, the common-law spouse of a deceased member applied for a survivor pension but was denied because the legislation providing benefits on deaths of members who retired before September 1, 1984 did not recognize common-law relationships.

Since we could not pay her a survivor pension, she took her case to the Human Rights Commission—they recently authorized us to pay her a survivor pension.

As a result of this case, we can now accept applications from common-law spouses of members who retired before September 1984, provided their common-law relationship was established when the member retired. We will need an affidavit of relationship.

Remarriage After Retirement

If your pension at retirement was reduced to provide your spouse with a higher survivor pension, the reduction continues to apply *even if your spouse dies before you.*

If you remarry and wish to provide your new spouse with a survivor pension, your current pension will be reduced again, based on the ages of both you and your spouse.

To provide your new spouse with a survivor pension, you must contact us within 90 days of your marriage, or within 90 days of when the person previously entitled to the survivor benefit becomes ineligible. If you miss this deadline, you will have to pass a medical examination.

Provision under review

The provision allowing you to provide a survivor pension to your new spouse is currently under review by Revenue Canada. We will inform you if there are any changes.

For Your Information...

This December's paydate will be on Wednesday, December 21st.

1994 tax receipts

We will be sending your 1994 tax receipt to you in mid-February.

You Asked Us

Q. ***Can my wife continue to receive health coverage when I die?***

A. If you and your wife are currently receiving health coverage through STO or OTIP, your wife will still be eligible for this coverage as your survivor. Inform your spouse that all she has to do is call your medical insurance plan, inform them of your death and tell them to continue coverage.

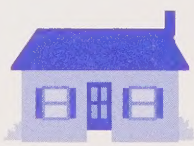
Remember—if you have any questions, problems or cancellations regarding your health coverage, please contact STO (Johnson Insurance) or OTIP directly at the numbers below. We only deduct medical premiums for these two organizations.

Johnson Insurance	Toll-free	1-800-461-4597
(for STO)	Toronto	(905) 764-4884
OTIP	Toll-free	1-800-265-6107
	Waterloo	(519) 884-1390

Changing Information

We can take your change of address over the telephone, but we need your banking changes in writing.

Just leave your new address on Phone-A-Memo, our 24-hour recorded-message system. Remember to clearly state your name and address.



If you're planning to change banks, inform us at least four weeks in advance to avoid any delays in the receipt of your pension. Please include a void cheque when writing to us.

Spousal RRSP's

Time is running out to transfer some of your pension into your spouse's RRSP account.

When new RRSP limits were set in the *Income Tax Act* in 1989, Revenue Canada introduced an option allowing you to transfer up to $6,000 per calendar year until 1994.

Since Revenue Canada isn't planning to extend the deadline, you have until the end of the 1994 *tax year* (up to March 1, 1995) to take advantage of this tax-free transfer.

Pension News

Linda Keon, Editor

Pension News is published for pensioners by the Communications Department of the Teachers' Pension Plan Board.

If you have any comments or ideas, call me at (416) 730-5357 or write to:

***Pension News*, Editor**
Teachers' Pension Plan Board
5650 Yonge Street
North York, Ontario M2M 4H5

Phone:	(416) 226-2700 or 1-800-668-0105
Phone-A-Memo:	(416) 226-4200 or 1-800-387-0945
Fax:	(416) 730-5349

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